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SUBJECT: Argentina: Deutsche Bank Country Chief Pessimistic About
Prospects For Holdout Deal

REF: BUENOS AIRES 1286

CLASSIFIED BY: Kelly, Tom, DCM; REASON: 1.4(B), (D)

¶1. (C) Marcelo Blanco, Argentina Country Director for Deutsche Bank, gave the Ambassador, DCM, and EconCouns on December 7 a very pessimistic assessment regarding the chances for a holdout deal in the immediate future. Blanco is the point-man for one of the three banks working with the GOA to consummate the deal. He said that everything is ready to go to move the proposal forward. The lead bank handling the deal - Barclay's - has already engaged an external consultant for USD 25 million to work on the proposal. However, nothing can happen until President Cristina Fernandez de Kirchner (CFK) signs the decree which will allow the government to formally initiate the process of offering a new proposal to the holdouts.

¶2. (C) Blanco said that contrary to Economy Minister Boudou's personal assurances to him last week that the President would finally sign the decree which has been sitting on her desk for about three weeks, nothing has happened. To give some insight into what he thinks is holding things up, Blanco said that he thinks Boudou - the proposal's champion within the government - has been an independent operator on this issue without any support from the Kirchners. Blanco characterized the Economy Minister as not being technically savvy and having no credibility whatsoever with CFK and her husband Nestor Kirchner, the regime's strongman. In addition, the improving regional and global financial situation has provided enough "oxygen" to keep the regime afloat fiscally, without having to go to international markets. Blanco claimed that the Kirchners are purely short-term thinkers, dealing with issues as they come along without any long-term planning. If the fiscal situation is manageable for the moment, they move their attentions elsewhere.

13. (C) Reporting about a one-on-one conversation he claimed to have had with the President last week, Blanco said that she is simply holding up the process. She voiced three specific complaints about the way that the holdout proposal was developing. First, she has not yet seen an actual proposal and is therefore unsure as to what precisely might be offered to the holdouts. Second, the interest rate being discussed for the new bonds that the GOA would issue as a part of the deal is too high. Lastly, he claimed that she is not pleased that the deal appears to have a GDP warrant component, which contributes about 5-6 cents on the dollar of its total value (The warrant is a financial instrument that pays according to the annual growth of Argentina's GDP. It was included as a "throwaway" in the original 2005 debt restructuring, but ended up being of great worth due to the strong growth of the Argentine economy in the ensuing years.)

14. (C) Blanco said that the GOA fiscal situation would deteriorate during 2010, as election economics comes to dominate expenditure decisions. However, there will always be some internal resources available to cover shortfalls, and the GOA does not truly need to go to international markets to raise money. Blanco claimed that Boudou has been acting more or less independently in trying to push a holdout deal. If he can deliver at the right price, he

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continued, Boudou has a chance to convince the Kirchners to go along. However, with a present value of more than fifty cents on the dollar and a double-digit interest rate on any new paper to be issued by the GOA, Blanco said that the Kirchners are unlikely to agree to move the proposal ahead. The deal is too generous to the bondholders, given that many of them are desperate to see any return at all on their holdings. Furthermore, the notion of offering a generous deal conflicts with the Kirchners' worldview, which calls for a ruthless approach to opponents, political or otherwise.

15. (C) Blanco did not entirely rule out the possibility of a holdout deal being reached eventually. He noted, however, that by the time the paperwork is finally processed and the necessary regulatory approvals received, the markets may have moved in an unfavorable direction from the GOA's standpoint. If that happens, he thinks there will be no deal. He characterized the deal's status as "now or never."

MARTINEZ